

Message Text

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ACTION EB-11

INFO OCT-01 ARA-16 ISO-00 FEA-02 AGR-20 CEA-02 CIAE-00

COME-00 DODE-00 FRB-03 H-03 INR-11 INT-08 L-03 LAB-06

NSAE-00 NSC-07 PA-04 RSC-01 AID-20 CIEP-03 SS-20

STR-08 TAR-02 TRSE-00 USIA-15 PRS-01 SP-03 OMB-01

SWF-02 XMB-07 OPIC-12 DRC-01 /193 W
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R 232120Z JUL 74

FM AMEMBASSY LIMA

TO SECSTATE WASHDC 1117

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EO 11652 N/A

TAGS: ETRD, PE

SUBJECT: PERUVIAN IMPORT RESTRICTIONS

REF: STATE 146514

1. SUMMARY: NEW IMPORT REGULATIONS ANNOUNCED BY GOP ON MAY 11 HAVE BEEN IMPLEMENTED WITH CONSIDERABLE SEVERITY. REGULATIONS HAVE CREATED UNCERTAINTY IN BUSINESS AND BANKING COMMUNITIES AND MAY CAUSE SHORTAGES AND POSSIBLY SOME DISRUPTION OF INDUSTRIAL PRODUCTION. WHILE MOST IMPORTERS SEEM TO HAVE BEEN ABLE TO COPE WITH 180-DAY CREDIT REQUIREMENT, NEW FOREIGN EXCHANGE ALLOCATIONS BEING ISSUED ARE MUCH BELOW ORIGINAL REQUESTS, AND MOST INDUSTRIES HAVE HAD THEIR REQUESTS CUT BACK SHARPLY. RESIGNATION OF FINANCE MINISTER MARCO DEL PONT ON JULY 17 HAS BEEN ATTRIBUTED TO GOP CONCERN THAT MEASURES TO SAVE EXCHANGE HAVE GONE TOO FAR AND MAY HARM ECONOMY, AND THERE IS SOME EXPECTATION THAT NEW MINISTER VARGAS GAVILANO MAY EFFECT A RELAXATION. END SUMMARY

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2. GOP HAS BEGUN TO ISSUE NEW IMPORT AUTHORIZATIONS FOR REMAINDER OF 1974. PRELIMINARY REPORTS INDICATE THAT REQUESTS BY IMPORTERS HAVE BEEN REDUCED SHARPLY WITH PARTICULARLY LARGE DECREASES IN ESSENTIAL IMPORTS. IT APPEARS, HOWEVER, THAT MANY REQUESTS FOR ESSENTIAL RAW MATERIALS, INTERMEDIATE GOODS AND MACHINERY HAVE ALSO BEEN REDUCED.

3. PRIOR TO NEW IMPORT SYSTEM, IMPORTERS RECEIVED FOREIGN EXCHANGE ALLOCATIONS FOR IMPORTS ON GLOBAL BASIS BY VALUE BASED PRIMARILY ON HISTORICAL RECORD OF IMPORTS AND WITH LITTLE SPECIFIC BREAKDOWN BY CATEGORY OF GOODS. NEW IMPORT AUTHORIZATIONS ARE COMPUTER PRINTOUT SHEETS SHOWING AUTHORIZED IMPORTS BY SPECIFIC IMPORT CATEGORIES. DEVIATIONS BY IMPORT CATEGORY FROM ORIGINAL AMOUNT ARE ALLOWED ONLY UP TO 15 PERCENT OF EACH CATEGORY. THUS, IMPORTERS ARE RESTRICTED TO IMPORTING SPECIFIC ITEMS AS LISTED IN THEIR AUTHORIZATIONS.

4. PRELIMINARY REPORTS INDICATE THAT PERCENTAGE OF IMPORT REQUESTS GRANTED ARE RUNNING 5 TO 15 PERCENT OF ORIGINAL REQUESTS. IT APPEARS, HOWEVER, THAT WHEN THIS AMOUNT IS ADDED TO ORIGINAL AMOUNT ALREADY IMPORTED FIRST FOUR MONTHS 1974, TOTAL IMPORTS PER IMPORTER APPROACH ACTUAL 1973 TOTALS. DESPITE THIS FACT, MANY FIRMS SERIOUSLY WORRIED THAT PRESENT REDUCED AUTHORIZATIONS WILL CAUSE SOME OF THEM TO RUN OUT OF SUPPLIES WITHIN NEXT FEW MONTHS FORCING SHUTDOWN OF OPERATIONS.

5. THOSE GOP OFFICIALS RESPONSIBLE MAINTAIN THAT NEW SYSTEM WILL ALLOW THEM CLOSELY TO CONTROL IMPORTS BY CATEGORIES AND PROVIDE THEM TOOL FOR DECREASING NONESSENTIAL IMPORTS. ALSO, THEY EXPECT THAT MANY SMALL, MARGINAL IMPORTERS WILL DISAPPEAR AND THAT REMAINDER OF IMPORTERS WILL SPECIALIZE TO GREATER EXTENT THAN BEFORE.

6. INSTITUTION OF PRESENT SYSTEM WAS PROMPTED BY GOP DISCOVERY THAT IMPORT REQUESTS (THOUGH NOT ACTUAL IMPORTS) BY PRIVATE SECTOR HAD REACHED \$800 MILLION BY APRIL (EQUAL LIMITED OFFICIAL USE

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TO TOTAL FOR ENTIRE 1973). NEW 180-DAY CREDIT REQUIREMENT PLUS COMPUTERIZED SYSTEM OF FOREIGN EXCHANGE ALLOCATION/ AUTHORIZATION WAS THEREFORE IMPLEMENTED WITH AIM NOT ONLY OF POSTPONING IMPORT PAYMENTS BUT ALSO OF IMPROVING GOP CONTROL. SPECIFICALLY, GOP SOUGHT TO PUT STOP TO PRACTICE WHEREBY IMPORTS WERE SHIPPED OUTSIDE OF IMPORT AUTHORIZATIONS AND WERE THEN ADMITTED ONCE GOODS WERE IN CUSTOMS ON BASIS OF ADDITIONAL IMPORT AUTHORIZATION.

7. MOST KNOWLEDGEABLE OBSERVERS BELIEVE THAT GOP OVER-REACTED TO JANUARY-APRIL IMPORT AUTHORIZATION LEVEL. MOST IMPORTERS WERE PLACING ORDERS EARLY TO INSURE CONTINUING SUPPLIES OF SCARCE MATERIALS AND TO ANTICIPATE EXPECTED PRICE INCREASES. STATISTICS IN PERU ARE NOTORIOUSLY INACCURATE AND GOP ALSO MAY HAVE ACTED ON INCOMPLETE INFORMATION. DIFFICULT TO BELIEVE THAT GIVEN NORMAL CONTROL TOOLS AVAILABLE TO GOP ON COMMERCIAL BANK CREDIT TO PRIVATE SECTOR IMPORTS WOULD RUN MUCH ABOVE 1973 LEVEL. IN FACT, IT APPEARS DECISION WAS TAKEN AT TECHNICAL LEVEL OF MINISTRY OF ECONOMY AND THAT OTHER PARTS OF GOVERNMENT WERE FACED WITH DE FACTO SITUATION THEY HAD TO ACCEPT.

8. GOP OFFICIALS INDICATE HARDSHIP CASES WILL BE GIVEN PROMPT CONSIDERATION FOR NECESSARY IMPORTS. BUREAUCRATS FAIL TO REALIZE, HOWEVER, THAT SUSPENSION OF IMPORT ORDERS FROM EARLY MAY TO LATE JUNE MAY HAVE INTERRUPTED PIPELINE OF ESSENTIAL GOODS WHICH MAY CAUSE SHORTAGES LATER IN YEAR. ALSO, PRIVATE SECTOR FINDS IT DIFFICULT TO PLAN FOR REMAINDER OF 1974 SINCE MANY PRODUCERS FACING GREAT UNCERTAINTY AS TO WHAT EMERGENCY IMPORT REQUESTS WILL BE APPROVED AS YEAR GOES ON.

9. ABILITY TO CONTROL IMPORTS BY CATEGORIES PROVIDES GOVERNMENT WITH IMPORTANT TOOL IN CONTROLLING OPERATIONS WITHIN PRIVATE SECTOR AND BETWEEN PRIVATE SECTOR AND PUBLIC SECTOR SINCE GOP NOW CAN DECIDE WHICH IMPORTER CAN OBTAIN IMPORTED RAW MATERIALS AND INVESTMENT GOODS. IN ADDITION TO OTHER EXISTING CONTROLS, PRIVATE SECTOR NOW FURTHER RESTRICTED AND AT MERCY OF GOP.

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FM AMEMBASSY LIMA

TO SECSTATE WASHDC 1118

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10. SINCE ANDEAN GROUP IMPORTS DO NOT HAVE TO BE DEDUCTED FROM FOREIGN EXCHANGE ALLOCATIONS, IMPORTS FROM OUTSIDE AREA ARE NOW SUBJECT TO GREATER DISADVANTAGE. CREDIT REQUIREMENT OF 180 DAYS DOES APPLY TO ANDEAN GROUP, BUT THERE ARE INDICATIONS THAT SOME MEMBER COUNTRIES WILL PROTEST AND THAT GOP MAY EXEMPT THOSE IMPORTS FROM CREDIT REQUIREMENT.

11. DESPITE CONFIDENCE EXPRESSED BY MINISTRY OF ECONOMY OFFICIALS, APPEARS DOUBTFUL THAT GOP CAN MANAGE COMPLICATED IMPORT SYSTEM WITHOUT SERIOUS PROBLEMS GIVEN LACK OF ADEQUATE STATISTICS AND ANTI-PRIVATE SECTOR BIAS WHICH GOP HAS TRADITIONALLY SHOWN. IN FACT, PROBLEM OF WORLD PRICE INCREASES FOR IMPORTS WILL MAKE IT NECESSARY FOR IMPORT AUTHORIZATION TO EXCEED 1973 LEVELS IF ACTUAL 1974 IMPORTS ARE TO EQUAL REAL 1973 LEVELS.

12. THERE ARE NO INDICATIONS PUBLIC SECTOR IMPORTS ARE BEING REDUCED, AND IT CAN BE EXPECTED THAT MOST OF ADJUSTMENT WILL BE BORNE BY PRIVATE SECTOR. CERTAINLY, IN SITUATIONS WHERE GOP HAS TO CHOOSE BETWEEN IMPORTS FOR PRIVATE LIMITED OFFICIAL USE

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SECTOR AND PUBLIC SECTOR, THERE WILL DEFINITELY BE BIAS TOWARD LATTER. IN FACT, DECISION ON IMPORT REQUESTS ARE BEING MADE BY INTERMINISTERIAL COMMISSION WITH NO PRIVATE COMMITTEE FOR THE PRIVATE SECTOR WHICH APPARENTLY CONSIDERED TOO LENIENT. END UNCLASSIFIED

13. ASIDE FROM FACT THAT PRIVATE SECTOR IMPORTS WERE RUNNING AT A RATE HIGHER THAN A YEAR BEFORE, IT IS DIFFICULT TO UNDERSTAND WHAT IMPELLED GOP TO TAKE SUCH DRACONIAN ACTION. GOP OFFICIALS HAVE REPEATEDLY STATED THAT BALANCE OF PAYMENTS SITUATION IS GOOD, AND EMBASSY ANALYSIS INDICATES THAT PERU MAY IN FACT HAVE NO MORE THAN A SLIGHT BALANCE OF PAYMENTS DEFICIT IN 1974. LOCAL IMF REPRESENTATIVE ALSO AGREES WITH US THAT PERU'S FOREIGN EXCHANGE RESERVES HAVE PROBABLY NOT DECREASED SIGNIFICANTLY IN RECENT MONTHS. HOWEVER, NEW IMPORT REQUIREMENTS HAVE FUELED SPECULATION THAT GOP IS CONCEALING BAD NEWS, WHICH

HAS INCREASED UNEASINESS IN BUSINESS COMMUNITY AND RE-INFORCED DEVALUATION RUMORS.

14. THE DISRUPTION CAUSED BY THE NEW REGULATIONS AND THE FACT THAT THEY HAVE BEEN ADMINISTERED WITH AN INEPT AND HEAVY HAND HAS APPARENTLY CAUSED BELATED CONCERN ON THE PART OF THE CABINET. THERE SEEMS LITTLE DOUBT THAT THIS WAS THE DIRECT CAUSE OF THE "RESIGNATION" OF EX-FINANCE MINISTER GUILLERMO MARCO DEL PONT, AND MOST OBSERVERS EXPECT THAT NEW MINISTER AMILCAR VARGAS GAVILANO HAS BEEN ASSIGNED THE TASK OF CLEANING UP THE MESS. HOWEVER, WHILE SOME RELAXATION MAY BE EXPECTED, IT SEEMS DOUBTFUL THAT THE NEW SYSTEM AS A WHOLE WILL BE SCRAPPED. THE MINISTRY MAY TRY TO RETAIN THE STRUCTURE, WITH THE ADDED CONTROL IT GIVES THE GOP, WHILE INCREASING EXCHANGE ALLOCATIONS TO KEY SECTORS.
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